



Investing in railways

On the right track

Private investment in rolling stock is set to gather steam

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AS AN asset class, railways have a worrying history. Railway mania in Britain in the 1840s left plenty of unwary investors nursing hefty losses; that episode sits in most lists of history's biggest speculative bubbles. But the prices of shares and bonds are dauntingly high, which has stoked interest in all manner of outlandish "alternative" assets in recent years. That, along with legal changes making it easier to repossess collateral that goes clickety-clack, may soon have investors funnelling cash into locomotives, carriages and goods wagons again.

Precious little private money is currently invested in rolling stock. That partly reflects the ownership of railways around the world, which are mainly in state hands. Around 87% of the €10.8 billion (\$14.4 billion) spent on locomotives and railway cars in Europe in 2011-13, for example, came from governments, according to a new study by Roland Berger, a consulting firm. This reliance on the public purse means that investment comes fitfully, if at all, arriving when it is available rather than when it is needed. Romania's state railway still operates 60-year-old steam trains.

The scarcity of public funds has hastened deregulation. The European Union's fourth package of railway reforms, for example, is designed to open all domestic rail markets to full competition by 2019. Operators should be keen. Passenger services tend to provide a steady income even when the local economy is derailed (freight is more likely to hit the buffers in a downturn). What is more, the public-private partnerships involved typically include a guaranteed return.

Deregulation should, in turn, encourage the growth of firms that lease rolling stock to operators, according to Howard Rosen of the Rail Working Group, a non-profit organisation representing the rail industry. It was outfits of this sort that accelerated the expansion of budget flying in the 1990s, by sparing startup airlines the cost of buying new

planes. A good number of banks and other institutions are ready to invest.

The hitch is that investors in rolling stock currently have little security over their assets. These are hard to identify and are designed to be moved across borders, from one legal jurisdiction to another. There is an international treaty called the Cape Town convention, which allows creditors to establish their interest in capital goods that cross borders, and repossess them if necessary—but it focuses mainly on aeroplanes. However, a new codicil to the treaty, which is now on the verge of ratification, seeks to institute a similar system for rolling stock. The addition will create a centralised record of serial numbers—something that exists for planes but not for bits of trains. This will reduce risks and costs for private investors.

So far the protocol has been ratified by the EU and awaits rubber-stamping by its member states. Other countries outside Europe are likely to sign up too. Indeed the opportunities may be even greater in Latin America and South-East Asia, where private cash is almost entirely absent but railways are needed more than ever. Another mania is unlikely, but the signal could be about to turn green for private capital.

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